

October 10, 1997

Dwight Dively
Finance Director
City of Seattle
Seattle, Washington 98104

Judy Bunnell
Director, Office of Management and Planning
City of Seattle
Seattle, Washington 98104

Re: City-wide accounting policies and procedures manual

Dear Dwight and Judy:

Over the last two months, we have met with financial managers in the departments of Executive Services (ESD), Parks and Recreation (Parks), Neighborhoods (DON) and Housing and Human Services (DHHS) to discuss the current state of accounting policies and practices in the City. We also spoke with officials in other jurisdictions to learn about their practices in documenting and maintaining accounting policies and procedures. We held these discussions to gain a better understanding of the City's practices and to determine whether the current documentation of accounting procedures is sufficient to produce accurate, timely and efficient accounting. This issue is especially pertinent in light of the current re-development of the City's financial management system (the Summit Project) and the consequent need to revise the City's financial and accounting procedures to meet the demands of the new system.

BACKGROUND

Well-documented accounting policies and procedures which adhere to generally accepted accounting principles are critical to the successful day-to-day management of City assets

and cash balances. They define fiscal responsibilities, set policy on the application of accounting principles and describe the fiscal policies and procedures for budgeting, accounting and reporting. In doing so, written policies and procedures improve the accuracy of accounting data and the reports that rely on it. They also prevent key internal control elements from deteriorating, provide important points of reference for current and new staff members and eliminate unneeded or redundant accounting practices.¹

By law, the Finance Director is required to maintain City-wide accounting policies and procedures and monitor departmental compliance of such policies and procedures.² In addition, each City department is required by law to maintain a procedures manual which reflects the policy, procedure, function and responsibility of each department.³ Included in this requirement is the documentation of accounting policies and procedures. The Office of Management and Planning (OMP) is directed to periodically review and audit these departmental manuals for currency and applicability.⁴

RESULTS OF OUR DISCUSSIONS WITH CITY OF SEATTLE OFFICIALS

Officials of the departments of ESD, Parks, DON, and DHHS are confident that their accounting staff have appropriate knowledge of accounting policies and procedures to perform their tasks proficiently. These departments have documented their procedures to varying degrees. For instance, Parks has an internal accounting manual and DHHS extensively documented its accounting policies and procedures, such as the release of CDBG funds and first time payments to vendors, in 1995.

Despite the confidence officials have in their accounting staff's ability to perform their tasks, the officials we spoke with during our review raised a number of concerns regarding the state of the City's documented accounting policies and procedures including:

- The City does not have clearly stated, up-to-date accounting policies and procedures, which is a violation of the Seattle Municipal Code. In the past, the Comptroller's Office produced a series of five fiscal manuals to provide everyone involved in the City's management with a clear explanation of all existing City-wide financial policies and practices. This series included An Accountant's Handbook, which provided a comprehensive overview of the City's organization, accounting system and fiscal policies, along with detailed procedures for processing financial transactions. Regrettably, An Accountant's Handbook has not received regular updating since the late 1980's and has become obsolete. According to ESD officials,

¹ An Accountant's Handbook, City of Seattle, Number 05, Section "Introduction," 1982.

² Seattle Municipal Code 3.38.010.

³ Seattle Municipal Code 3.96.050.

⁴ Seattle Municipal Code 3.96.050.

this is due to constraints of staffing, budget and time. Although it remains on file, accounting divisions rarely refer to the Handbook.

- Since the last updates to An Accountant's Handbook, changes in accounting procedures have been communicated by the Finance Director in memorandum format.⁵ For example, when a new policy is adopted by the Finance Director, the Finance Director distributes a memorandum to the accounting managers of each department. He may also send a memorandum to department heads. Each department accounting manager is then responsible for disseminating this information to staff through what they determine is the most effective means of communication. There is no established procedure for filing the new policy, and it is up to department accounting managers to account for the changes.
- Though departments are accomplishing their accounting tasks, their effectiveness and efficiency may suffer from insufficient and out-of-date documentation of the City's accounting and financial policies and procedures. Officials cited two particular concerns:
 1. inconsistencies in accounting practices, such as inter-fund billing, which may result from the absence of clearly-stated and up-to-date City-wide policies and procedures; and
 2. vulnerability to lengthy absences or abrupt departures of individuals with key institutional knowledge.

We share the concern over inconsistent accounting practices, as we also have encountered discrepant procedures in areas of accounting we have reviewed. For example, during our review of City-wide collection of accounts receivables, we found that policies for write-offs and non-sufficient funds (NSF) checks date from the late 1980's and need up-dating to reflect current practices. We also found that the City's accounts receivable policies and procedures were missing some key procedures and information.⁶

In addition to the concerns raised by department officials, we also note that OMP has not been periodically reviewing and auditing departmental accounting policies and procedures for currency and applicability, as directed by Seattle Municipal Code.⁷

⁵ At least one memorandum informing of a change in accounting procedure was communicated by the Director of Accounting Services on behalf of the Finance Director.

⁶ "City-Wide Collection of Accounts Receivable," Office of the City Auditor, May 17, 1995.

⁷ Seattle Municipal Code 3.96.050.

RESULTS OF OUR DISCUSSIONS WITH OTHER JURISDICTIONS⁸

In our discussions with seven other jurisdictions, we found some jurisdictions are also behind in updating their accounting policies and procedures. For instance, Suffolk County, New York has never prepared a formal procedures manual; the State of Rhode Island has been trying to update its manual for 10 years; the University of Washington does not remember when its manual was last updated; and King County has not comprehensively revised their accounting manual in many years, though the County has been updating specific policies about once a year.

Other jurisdictions place a priority in maintaining an updated accounting policies and procedures manual:

- Washington State comprehensively updates their policies and procedures each year;
- Harris County, Texas continuously updates their manual; and
- Multnomah County, Oregon updates their manual annually, reviewing various sections according to a review cycle.

Finance and accounting officials in these jurisdictions point out that documented policies and procedures are important to test internal controls, monitor job performance and ensure that procedures meet new legislation, Governmental Accounting Standards Board (GASB) revisions and state policies.

RECOMMENDATIONS

In light of the current effort to redevelop the City's financial management system, (referred to as the "Summit Project") and the consequent need to amend the City's accounting procedures, this is the opportune time to update the City's documentation of accounting policies and procedures. We understand the Summit Project group has been working with the ESD Accounting Services Director to explore the development of a joint accounting policies and procedures manual and to issue the manual while implementing the second phase of the new financial system. We enthusiastically support this effort to bring the City's documented accounting policies and procedures up-to-date, and we urge ESD to ensure the following steps occur:

- Identify accounting policies that are applicable City-wide and review them for currency and consistency in application. Attachment A provides a suggested list of contents for the updated accounting policy and procedures manual (not in any particular order).

⁸ The following were selected from a National Association of Local Government Auditors (NALGA) list of jurisdictions that were comparable to the City of Seattle in number of employees.

- Standardize City-wide accounting policies, where appropriate, especially for areas such as debt accounting and fixed assets reporting.
- Review City-wide accounting policies for compliance with generally accepted accounting principles, the Seattle Municipal Code and other applicable legislation and accounting rules.
- Work with the Business Process Re-Engineering (BPR)/Training unit of the Summit Project group to ensure the updated accounting policies and procedures manual includes a detailed description of all new procedures associated with the Summit system.
- Determine the best way(s) to disseminate the information about revised accounting policies and procedures, including putting the information on the City's internal web page and providing access to the information through the new financial management system's "On-Line Help" feature. A traditional, hard copy manual may no longer be necessary or make sense.
- Amend the Seattle Municipal Code to designate the Director of Finance rather than Office of Management and Planning with the duty of (1) periodically reviewing and auditing *accounting* policies and procedures to assure that they are current and applicable, and (2) establishing guidelines for departmental *accounting* policies and procedures, distributing these policies and procedures and maintaining a master file of such documents. OMP will continue to have oversight over all other department policies and procedures manuals.⁹
- Provide a work plan for revising the City-wide accounting manual which corresponds to appropriate stages during the Summit Project.

We appreciate the cooperation and professionalism of all of the staff we worked with in the departments of ESD, OMP, Parks, DON, and DHHS.

We plan to report regularly on the City's progress in documenting accounting policies and procedures in Improvements!, our publication which tracks audit recommendations and other issues critical to ensure that City functions have efficient and effective operations, generate reliable internal and external reports, and comply with applicable laws, regulations and internal policies. If you have any questions regarding our review of the City's accounting policies and procedures, Improvements! or any other audit-related issue, please call me at 233-0088 or Susan Cohen at 233-1093.

⁹ Seattle Municipal Code 3.96.040 and 3.96.050.

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Sincerely,

Nora Masters

cc: Honorable Normen B. Rice, Mayor
Seattle City Councilmembers
Department Directors
Department Finance Directors

Attachment

ATTACHMENT A

ACCOUNTING POLICY & PROCEDURES MANUAL

1) Authoritative Accounting Literature

- GASB
- BARS
- FASB
- EITF
- ASB
- Statutes: State Accountancy Act
- Ordinances

2) General Accounting Requirements

- Chart of Accounts
 - Definition of Account
 - Inclusions - Nature of items included
 - Exclusions - Specific situations to be avoided
 - Classification
- Organizational Charts
 - Delegation of Authority
 - Span of Control
 - Job Functions
 - Reporting Relationships
 - Profit Centers
 - Cost Centers
- Position Descriptions
- Journal Entries
 - Preparation/Authorization
 - Documentation Standards
 - Approval
 - Sample Forms & Formats
 - Recurring Journal Entries
 - Type
 - Frequency
- Closing Schedule
 - Monthly
 - Annual
 - Biennial
- Reconciliations
 - Type
 - Frequency
 - Review & Approval
- Accounting Reports
 - Type
 - Weekly
 - Monthly
 - Annual
 - Frequency
 - Distribution
 - Report Samples
- Report Analysis
 - Variance Analysis
 - Analytic Review
 - Ratio Analysis

3) Cash & Cash Management

- Cash Account Structure
- Cash Control
- Cash Collections
- Cash Disbursements
 - Paper-Based Disbursements
 - Wire Transfers
 - ACH
- Liquidity & Target Cash Balances
- Working Capital
- Replacement Reserves
- Petty Cash
- Cash Forecasting

4) Accounts Receivable

- Billing/Unbilled Services
- Extension of Credit and Credit Adjustments
- Disputed Invoices
- Allowance for Doubtful Accounts,
- Receivables Write-Offs
- Collections of Receivables Previously Written-Off
- A/R Aging
- Bad Debt Analysis
- Cash Application
- Early Payment Discounts/Discount Authorizations
- Late Payment Penalties
- Due From Other Funds Accounts

5) Inventory

- Supplies Inventory
- Resale Inventory
- Physical Counts/Cycle Counts
- Valuation Methodology (FIFO, LIFO, Average Cost, Specific Identification)
- Write-Downs

6) Fixed Assets

- Capitalization Policy
 - Basis of accounting [original cost]
 - Ancillary costs [sales taxes, freight, installation, etc.]
 - Capitalization of interest for constructed assets
- Asset Transfers
- Valuation (Historical Cost)
- Depreciation Methodology/Depreciable Lives
- Capitalization of Interest During Construction
- Physical Counts
- Subsidiary/GL Reconciliations
- Disposal of Assets:
 - Surplusing
 - Retirement
 - Abandonments
 - Involuntary conversion
- Abandonment of Assets
- Permanent Impairment of Assets
- Non-Monetary Transactions/Asset Exchanges
- Accounting for Software

- Improvements and Replacements
- Rearrangement and Reinstallation
- Deferred Payment Contracts
- Cash Discounts
- Self-Constructed Assets
- Environmentally Contaminated Property
- Property with Asbestos

7) Other Assets

- Prepaid Expenses
 - Definition
 - Amortization Period
- Bond Issuance Costs
 - Definition
 - Amortization Period
- Advances to Other Funds
- Restricted Assets

8) Accounts Payable

- Vouchers Payable
- Accounts Payable
- Contracts Payable
- Taxes Payable (Sales/B&O)
- Current Portion-Long-Term Debt
- Interest Payable
- Due to Other Funds
- Loans to Employees
- Encumbrances

9) Accrued Liabilities

- Salaries & Wages
- Vacation
- Sick Leave
- Compensating Absences

10) Reserves for Liabilities

- Hazardous Materials
- Estimating Reserves

11) Unearned Revenue

- Revenue Recognition

12) Long-Term Liabilities

- Compliance with Bond Covenants and Other Restrictions
- Bond Discounts/Premiums
- Loan Amortization Schedules/Effective Interest Rate
- Capitalized Leases
- Financial Statement Disclosures
- Advanced Refundings/In-Substance Defeasance

13) Fund Balances

- Contributed Capital
- Reserved and Designated Fund Balances
- Residual Equity Transfers
- Reserve for Encumbrances

14) Revenues

- Revenue Recognition
- Revenue Recognition with Right of Return

15) Expenses

- Expense Recognition
- Imputed Interest